

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.



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BEACONS OF THE WEEK

The two main purposes of a Lighthouse are to serve as a navigational aid and to warn ships (Investors) of dangerous areas. It is like a traffic sign on the sea.



Galle Lighthouse, Galle Fort, Sri Lanka

The Galle Lighthouse was originally built in 1848 but was rebuilt in 1939 after a devastating fire. The lighthouse is located on the south coast of Sri Lanka and stands at 26 meters tall. It is Sri Lanka's oldest lighthouse station.



Makapuu Point Lighthouse, Oahu, Hawaii

This lighthouse is located on the eastern tip of Oahu. Despite its height of 14 meters tall, this lighthouse has a far reach as it is located atop a rocky cliff. The lighthouse was built in 1906 and helps ships travel from the west coast of the U.S. to Honolulu.

Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.

Bitcoin jumps

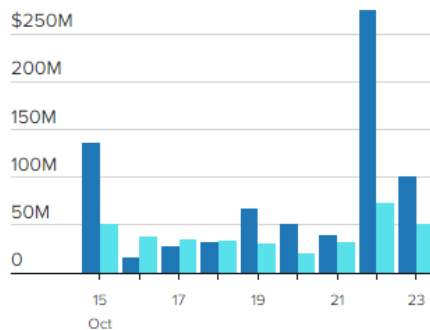
The price of Bitcoin jumped this week, briefly topping \$35,000 for the first time in 16 months. Over the last month, Bitcoin has jumped 31%



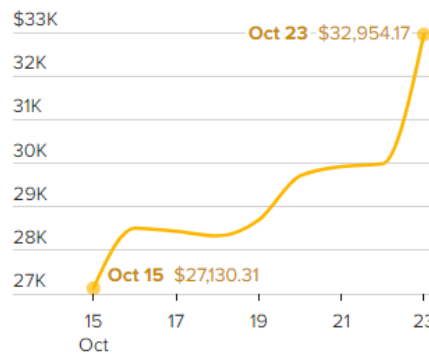
This move came as positive sentiment increased across markets regarding a bitcoin ETF being approved by regulators. According to CoinGlass this week’s move could also have been due to investors covering short positions against Bitcoin, as there was \$275 million in short liquidations on Sunday, and \$100 million on Monday of this week. The largest price action came on the largest short liquidation days, perhaps investors who bet against the exit are taking some profits in the short term before retail investors pile in.

Bitcoin liquidations

SHORT AND LONG LIQUIDATIONS



BITCOIN PRICE



Graphic: Gabriel Cortes / CNBC
Source: Coin Metrics, CoinGlass



Bitcoin’s move lifted the entire crypto market this week as well as equities tied to crypto assets.

A Bitcoin ETF would give investors a way to gain exposure to Bitcoin's price movements without owning the asset directly. Major institutions like BlackRock, Invesco, Fidelity, and Grayscale have been pushing for Bitcoin ETFs and have applied to regulators for approvals.

Coinbase told CNBC this week that they believe there will be a U.S. Bitcoin ETF that will be approved by the SEC.

Despite the surge in price this year for Bitcoin and the crypto world, prices remain well off their all-time highs. If you told your aunt or uncle to buy Bitcoin at Thanksgiving in 2021, they would be down approximately 50%.

Realtor.com's top emerging markets

Realtor.com announced their top 20 emerging real estate markets for fall 2023 and the names on the list are quite surprising. Many of the names also have something in common.....

The Top 20 Emerging Markets for Fall 2023, according to Realtor.com

1. Topeka, Kan.
2. Elkhart-Goshen, Ind.
3. Oshkosh-Neenah, Wis.
4. Fort Wayne, Ind.
5. Lafayette-West Lafayette, Ind.
6. Racine, Wis.
7. Manchester-Nashua, N.H.
8. Concord, N.H.
9. Columbus, Ohio
10. Johnson City, Tenn.
11. Kingsport-Bristol-Bristol, Tenn.-Va.
12. Jefferson City, Mo.
13. Springfield, Ohio
14. Santa Maria-Santa Barbara, Calif.
15. Dayton, Ohio
16. Janesville-Beloit, Wis.
17. Canton-Massillon, Ohio
18. Knoxville, Tenn.
19. Hartford-West Hartford-East Hartford, Conn.
20. Worcester, Mass.-Conn.

Many of the names are in the mid-west..... In fact, 12 of the 20 names on the list are in that region.



Realtor.com analyzed the top 300 most populous metropolitan areas and used several factors to rank them. The factors include economic health, quality of life, unemployment trends, wages, cost of living, and projected home appreciation.

The Midwest is considered an emerging housing hot spot as it's very affordable right now and has a lower cost of living with a high quality of life. The average home price across the U.S. in September was \$430,000, the average home price in Topeka, Kansas is 42% less making the area quite affordable.

The study highlighted many employers moving into the Midwest and actively hiring now and consumers following them into these affordable cities.

Perhaps, the new hot spot for real estate moving forward is less South and more in middle America where home prices are low, and the quality of life is high.

Bank of Canada holds benchmark interest rate

The Bank of Canada announced their interest rate decision on Wednesday and investors and homeowners can breathe a sigh of relief (for the time being). The benchmark interest rate remains at 5%. This is the second straight time the Central Bank has held rates in place after raising the cost of borrowing 10 times over the last year.

Bay Street expectations were forecasting no change in the benchmark interest rate.

This move could confirm interest rate increases are behind us as economic growth has hit the brakes. Global economic growth has slowed this year and so have growth forecasts which have been slashed

numerous times over the last 12 months. In Canada, consumption has been subdued, housing demand has been soft, and demand has decreased for durable goods and services.

Overall, the Bank of Canada expects the Canadian economy to grow by 1.2% this year, 0.9% in 2024 and 2.5% in 2025.

Tech giants beginning to crack

The 7 largest technology companies otherwise known as the Magnificent 7 have dragged the market along this year. These companies are responsible for most of the Nasdaq and S&P 500's return this year. Everyone from hedge fund managers to retail investors has piled into these companies in a flight to "safety" and the hype of artificial intelligence. These investors have looked to boost monthly and quarterly results as they have been blown out of the water over the last 2 years. This has led to a melt-up of these 7 stocks (even more than they had already). Prices for these stocks have surged but earnings have not caused their P/E ratios to multiply to levels not seen in years.

The performance of these stocks and the prices they trade at makes markets very reliant on a small number of names. All these names operate in the technology sector and offer little diversification. Most of them also trade quite expensively on a book and earnings level which is why we have been very hesitant to initiate new positions in these names this year. (We own some of the Magnificent 7 in various client accounts, but those positions were opened when these stocks traded at lower levels.) If something were to happen to some of these names, equity markets could take a major turn in the wrong direction. One earnings miss, one soft earnings forecast, or a product launch that Wall Street does not like could cause serious harm to equity markets.

On Wednesday, October 25, 2023, we got one of those events.

Market Summary > Alphabet Inc Class A

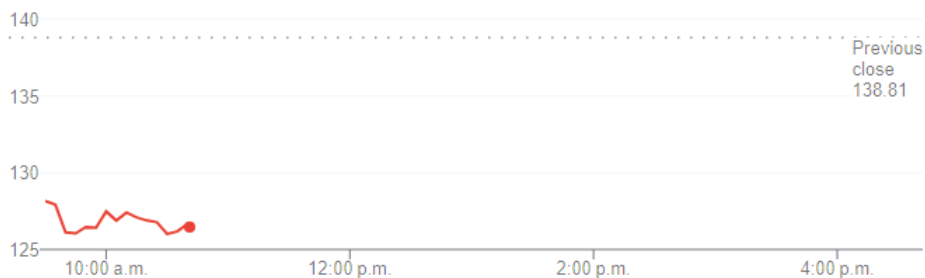
126.48 USD

-12.33 (8.88%) ↓ today

Oct 25, 10:41 a.m. EDT • Disclaimer

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1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Alphabet shares shed 9% on Wednesday, slashing over \$140 billion in market capitalization on third-quarter earnings miss for their Google Cloud business unit. The company's underlying revenue and earnings beat expectations but missed heavily on Cloud revenue relative to Microsoft, its biggest competitor.

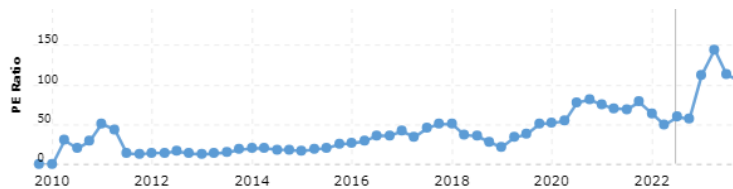
On the company's conference call with investors, CFO Ruth Porat said that the cloud business reflected "the impact of customer optimization efforts". This shortfall in revenue came in contrast to Microsoft's results which beat expectations.

This 9% slide comes after a huge boost from second-quarter earnings when Google shares jumped 12% after some major earning beats.

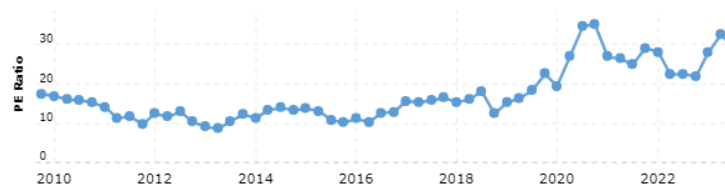
Our thesis of markets being very reliant on the Magnificent 7 was confirmed on Wednesday as futures flipped from green to heavily red on Google's miss. As of 10:30 am on Wednesday the S&P 500 was down over 1%, and the Nasdaq-100 was down 1.35%.

We will have to see what happens next but remain in the party that the majority of the Magnificent 7 remain extremely expensive.

Nvidia's price-to-earnings ratio since 2010:



Apple's price-to-earnings since 2010:



The uptrends of these ratios for these companies over the last few years have been exponential - some might argue bubble territory. The one thing people need to look at is if we dip into a recession, these companies and their earnings will be impacted significantly, potentially driving their p/e ratios even higher. For now, we will wait on the sidelines.

The House finally elects a Speaker

After weeks without a Speaker, the U.S. House of Representatives has finally elected a new Speaker after Kevin McCarthy was ousted just a few weeks ago. After weeks of voting and public disputes, House Republicans finally elected a new Speaker. Numerous candidates had been nominated by Republicans, but all failed to reach the 217-vote threshold needed to be Speaker. That all changed on Wednesday when Republican Congressman Mike Johnson was voted in. All Republican members present for this vote voted for Representative Johnson showing party unity for the first time in months. The Louisiana Republican was first elected to Congress in 2016.

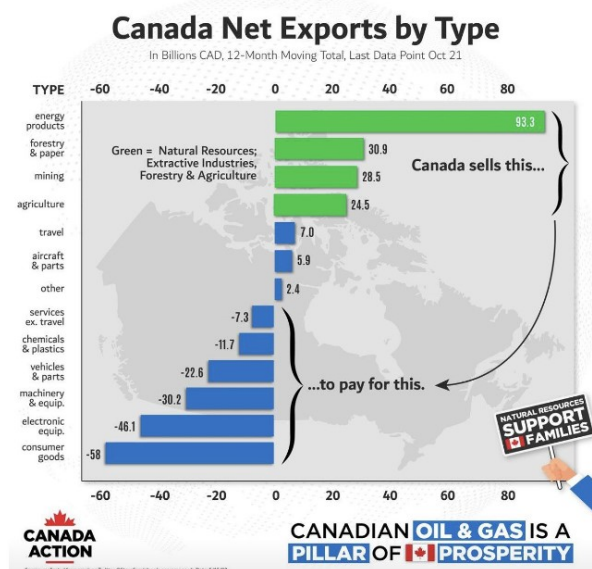
Representative Johnson seems to be the happy medium in the Republican conference with support from moderate Republicans as well as new-age Republicans like President Donald Trump who noted that Johnson is “FINE AND VERY TALENTED”.

In addition, the Louisiana congressman supports a short-term budget bill, known as a continuing resolution or CR, that funds the government at current levels to either January 15th or April 15th. This means a government shutdown next month looks unlikely as the Federal government is estimated to run out of funding sometime in November.

The one point of contention on the funding Bill for Johnson could be foreign funding to Ukraine and potentially Israel, Johnson has previously voted against aid to Ukraine.

The great white north

Canada, one of the largest countries in the world in terms of space is resource-rich. As Canadians we know this, our oil sands are plentiful, our mines are full, and our equity markets are dependent on commodity prices. But did you know how these industries impact imports and exports for Canada?



Canada sells natural resources to pay for consumer goods, electronics, and vehicles. We knew this was the case but did not know how pronounced the relationship was. If Canada decided to open up their oil and gas reserves (more than they do now and stop restricting expansion) and fuel the West's energy needs, the country could enjoy an even stronger economy with huge potential moving forward.

Artificial hype

The world of AI is a hype train that is roaring across the economy. Companies are using the term like a buzzword, and we do not blame them, it sells and investors eat it up. The evolution of AI has led to Nvidia becoming a trillion-dollar company. Most technology companies using the term "AI" in their earnings calls, and high-tech semiconductor are seeing orders surge.

The hype around AI has led to major investments from companies such as Google, Microsoft, Amazon, and Apple in the space. The company originally responsible for many of the breakthroughs in this field was OpenAI which was most recently valued at \$86 billion. OpenAI is responsible for ChatGPT, a popular artificial intelligence tool that is utilized by millions of people. The combined valuation of Snapchat, Domino's Pizza, Dick's Sporting Goods, Etsy, Ralph Lauren, The New York Times, Levis, Lyft, Instacart, Macy's, and American Airlines is just above \$86 billion. Saying OpenAI has roared is an understatement. OpenAI's valuation has had a threefold increase in the last 6 months. OpenAI was reported to have a \$1.3 billion annual revenue run rate just earlier this month. This pegs OpenAI's price-to-sales ratio at 66.15x. The S&P 500 has an approximate price-to-sales ratio of 2.34x as of this writing.

This makes us ask the question, is this surge purely hype and valuations will eventually come back to Earth or is this the birth of something here to stay? We think it's a combination of both. The technology is certainly not the metaverse as it has real-life applications, but this year's surge is a tad bubbly in our opinion, and we think a slight reset is coming soon.


Higher rates, worry about it later

Despite decade-high mortgage rates, home sales surged in September across the U.S.



September marked a 19-month high for home sales as the median home price dropped. The median single-family home price decreased by the fastest rate since 2009 as sellers and builders tried to "woo" prospective homebuyers despite mortgage rates flirting with 8%.

The bulk of homes sold last month were in the \$150,000 to \$499,999 price range. Many were new constructions as existing homes for sale slowed down.

New home sales jumped by 12.3% in September versus a consensus estimate of 0.7%. New home sales are accounted for at the signing of a contract. It is often looked like a leading indicator for the overall housing sector. Is this a sign of affordability or a sign of desperation by homebuilders as they attempt to attract buyers in an environment that is quite unfriendly to buyers? September's new home sales marked the highest seasonally adjusted number since February 2022.

← Economic Event  

U.S. New Home Sales

	759K Actual:	680K Forecast:	676K  Previous:
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Importance: ▼▼▼
Currency: USD
Country:  United States
Release Date: Oct 25, 2023 17:00
Source Of Report: [Census Bureau](#)

New Home Sales measures the annualized number of new single-family homes that were sold during the previous month. This report tends to have more impa .. [Show more](#)

History



MacNicol & Associates Asset Management
October 27, 2023